

Interim Financial Statements

Quartix Holdings plc

For the half year ended 30 June 2017

The unaudited interim results to 30 June 2017 for Quartix Holdings plc are set out below:

Statement of Directors' responsibilities

The Directors are responsible for preparing the interim financial report, in accordance with applicable law and regulations.

As permitted, this Interim Report has been prepared in accordance with UK AIM Rules for Companies and not in accordance with IAS 34 "Interim Financial Reporting" and it should be read in conjunction with the annual financial statements for the year ended 31 December 2016. The Directors confirm that to the best of their knowledge the interim financial statements have been prepared in a manner consistent with the accounting policies set out in the statutory accounts for the year ended 31 December 2016.

By order of the Board of Directors on 25 July 2017.

Andrew Walters
Managing Director

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Highlights

Financial highlights

- Group revenue of £11.5m (2016: £11.6m)
- Fleet revenue grew by 15% to £8.3m (2016: £7.2m)
- As anticipated, insurance revenue decreased - to £3.2m (2016: £4.4m)
- Adjusted EBITDA¹ of £3.5m (2016: £3.4m)
- Operating profit of £3.2m (2016: £3.3m)
- Profit before tax of £3.2m (2016: £3.3m)
- Diluted earnings per share of 5.78p (2016: 5.82p)
- Cash generated from operations of £2.9m (2016: £3.6m)
- Free cash flow of £2.6m (2016: £3.1m)
- Operating cash conversion² of 90% (2016: 107%)
- Interim dividend of 2.4p per share proposed

¹ EBITDA adjusted for share based payment expense of £0.2m

² Cash generated from operations of £2.9m divided by operating profit of £3.2m

Operational highlights

Fleet

Excellent progress in the main fleet business

- Subscription base grew by 10% to 96,971 vehicles (31st December 2016: 87,889)
- Fleet installations grew by 45% to 14,324 (2016: 9,898)
- Customer base increased by 11% to 10,076 (31st December 2016: 9,105)
- Fleet invoiced recurring revenue increased by 16% to £7.6m (2016: £6.5m)
- Attrition¹ on a rolling 12-month basis was 10.1%; significantly below the 14% industry average

¹ Attrition is calculated as the difference between the number of new unit installations and the increase in active subscriptions between 1 July 2016 and 30 June 2017, expressed as a percentage of the mean subscription base between those two points in time: $[(26,647-17,757)/88,093 = 10.1\%]$

UK & Ireland

- 77,953 active vehicle subscriptions, up 9% (31 December 2016: 71,712)
- 7,193 customers, up 9% (31 December 2016: 6,602)

France

- 11,405 active vehicle subscriptions, up 14% (31 December 2016: 9,986)
- 1,596 customers, up 12% (31 December 2016: 1,428)

USA

- 7,613 active vehicle subscriptions, up 23% (31 December 2016: 6,191)
- 1,287 customers, up 20% (31 December 2016: 1,075)

Insurance

Successfully transitioned away from lower-margin insurance business

- Insurance installations decreased by 35% to 23,947 (2016: 37,060).
- Reinstatement of some volume lost in first half is now expected in the second half, at increased pricing.
- Higher minimum pricing established, backed by proven quality levels which have now been benchmarked against the competition during the first half
- One small additional direct insurance customer commenced installations in the period
- Discussions are underway with several additional brokers and insurers with respect to our direct offering
- The SafeSpeed database has gained excellent feedback from insurers since launch in 2016, and has shown its potential to help reduce young driver injuries and fatalities

Chairman's Statement

Summary

The past half year has shown continued strong demand for the Group's vehicle tracking systems, software and services. New fleet subscriptions increased by 45% to 14,324 (2016: 9,898), revenue in this sector grew by 15% to £8.3m (2016: £7.2m) and recurring revenue increased by 16% to £7.6m (2016: £6.5m). Following the decision taken a year ago to focus on only those insurance applications which deliver satisfactory margins, sales to UK based insurance customers decreased by 26% to £3.2m (2016: £4.4m). Despite this reduction, the growth in fleet revenue ensured that Group revenue was broadly consistent with last year, at £11.5m (2016: £11.6m).

Total sales in the UK were £10.1m (2016: £10.7m). Sales to fleet customers in this market increased by 9% to £6.8m (2016: £6.3m) and the subscription base grew to 77,953 vehicles, representing an increase of 18% over the past 12 months (30 June 2016: 66,089). This was driven by good progress in each of the Group's three main channels during the first half, namely: direct sales, distribution and price comparison websites.

The Group made good progress in France, where the subscription base rose by 26% over the past year to 11,405 vehicles (30 June 2016: 9,058). Development of each of our channels to market is ongoing and revenue in France in the first half increased by 30% in local currency to €1.0m (2016: €0.8m).

The Group continued to develop its operations successfully in the USA, taking its subscription base to 7,613 vehicles. This is 87% higher than it was 12 months ago (30 June 2016: 4,067). During this time the Group has invested in the development of products to satisfy forthcoming legislation concerning the logging of driver hours. The initial release of the product is in use and receiving positive feedback from customers, and a full release of the main application is expected in the second half. Revenue increased by 76% to \$0.7m (2016: \$0.4m).

Successful development of our sales channels in the UK was by far the most significant contributor to first half growth in new fleet installations: UK fleet installations rose by 45% to 10,476. In the second half we will look towards using this expertise for the USA as well by managing these channels from the UK.

The Company's "Powered by Quartix" initiative for the insurance sector, which it launched at the middle of last year, offers insurance brokers an off-the-shelf telematics product allowing them to compete effectively in the young driver market. It is currently in use by two brokers and supported by one underwriter. Further prospects in terms of brokers and underwriters are being developed, and discussions are in course. This initiative has proven to be of great importance to the Company in showcasing its capabilities and service levels directly; in gaining much greater awareness with insurers and the market in general; and in promoting the Company's SafeSpeed contextual speed scoring system for the assessment of accident risk. The SafeSpeed database is unique in comparing the behaviour of young drivers on particularly dangerous roads (such as single-carriageway rural roads) with that of more experienced fleet drivers on exactly the same road, helping to identify and coach those who are at risk of accident. Loss ratios on the first programme to use it have been very good so far.

Results

Group revenue for the half year was £11.5m (2016: £11.6m). Fleet revenue grew by 15% to £8.3m (2016: £7.2m) and insurance revenue decreased by 26% to £3.2m (2016: £4.4m). Sales to the insurance sector as a percentage of overall revenue reduced to 28% (2016: 38%).

Increased focus on our core fleet business led to the recurring element of subscriptions growing to represent 65% of Group turnover (2016: 55%). Although the higher level of this subscription revenue helps to improve the margin mix, we also funded growth of 45% in new fleet installations for the period (2017: 14,324 units installed; 2016: 9,898 units installed). The cost of all new fleet tracking systems and installations is absorbed in cost of sales, as are commissions paid to indirect sales channels, which contributed to the

Financial statements for the half year ended 30 June 2017

growth. Material costs per unit also rose considerably as a consequence of the weakness of the pound against the dollar. It is pleasing, therefore, that gross profit was consistent with last year overall, reflecting the improvement in margin mix. Operating profit for the half year decreased by 3% to £3.2m (2016: £3.3m). This is in line with achievement of market expectations for the year. Profit before tax was also 3% down at £3.2m (2016: £3.3m).

Operating cash conversion was good, at 90%, resulting in pre-tax cash generated from operations of £2.9m (2016: £3.6m). Free cash flow conversion was 82%, resulting in free cash flow from operations after tax and investing activities of £2.6m (2016: £3.1m). The Group had net cash of £4.8m as at 30 June 2017 (£6.2m at 31st December 2016), having paid a dividend of £4.3m in May.

Although good, cash flow was not as strong as it had been for the same period in 2016. This resulted from a number of factors, including the impact of reduced insurance volumes on deferred revenue provisions and timing differences with last year; some of these factors should reverse in the second half.

Earnings per share

Basic earnings per share were 5.92p (2016: 5.89p). On a fully diluted basis earnings per share were 5.78p (2016: 5.82p).

Dividend

The Board has recommended an interim dividend of 2.4p (2016 2.2p) per share, amounting to £1,141,641 in aggregate. This was approved by the Board on 25 July 2017. The interim dividend will be paid on 14 September 2017 to shareholders on the register as at 18 August 2017.

Dividend Policy

Following the publication of its final results for 2017, the Board plans to announce a final dividend for the year with the aggregate of the interim and final dividend set at approximately 50% of cash flow from operating activities, which is calculated after taxation paid but before capital expenditure. The Board will also look to distribute the excess of cash balances over £2m by way of supplementary dividends. The surplus cash will be calculated by taking the year end cash balance and deducting the proposed regular dividend. The policy will be subject to review.

Governance and the Board

The Board is comprised of two Non-Executive Directors: myself and Jim Warwick, and three Executive Directors: Andrew Walters, David Bridge and Ed Ralph; Ed is appointed as chief operating officer today, and I would like to take the opportunity of welcoming him to the Board. Ed brings extensive experience and a proven track record in technology management, digital marketing and eCommerce from his time at Abcam, and these skills will play a vital role in the next stages of the Group's development.

David Bridge has indicated that, following 10 years of excellent service to the Group, he would like to step down from the Board in due course. I would like to take the opportunity to add my thanks for the significant contribution that he has made to the development of the Group's business over that period, and to wish him well for the future. David remains committed to the Group and he is working with the board in seeking a successor; progress on this will be announced in due course.

For further details regarding Corporate Governance and the Board, please see the "Investors" section of our website (www.quartix.net/investors.php).

Outlook

The Group has made a good start to the second half, in line with management's expectations. The high levels of recurring revenue and opportunities to grow in the UK, France and the USA in fleet combined with the reinstatement of some lost volume and improved pricing in the insurance business, underpin our confidence for the rest of the year and beyond. We will continue to use the financial strength of the business to invest in our core fleet operations

Paul Boughton

Chairman

Consolidated Statement of Comprehensive Income

		30 June 2017	30 June 2016	31 December 2016
	Notes	Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Revenue	3	11,510	11,574	23,339
Cost of sales		(4,440)	(4,483)	(9,276)
Gross profit		7,070	7,091	14,063
Administrative expenses		(3,860)	(3,769)	(7,520)
Operating profit		3,210	3,322	6,543
Finance income receivable		9	8	21
Finance costs payable		-	(17)	(24)
Profit for the period before taxation		3,219	3,313	6,540
Tax expense		(413)	(531)	(453)
Profit for the period		2,806	2,782	6,087
Other Comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations		110	(125)	(255)
Other comprehensive income for the year, net of tax		110	(125)	(255)
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		2,916	2,657	5,832
Adjusted EBITDA		3,459	3,445	6,808
Earnings per ordinary share (pence)	5			
Basic		5.92	5.89	12.87
Diluted		5.78	5.82	12.70

All of the activities of the Group in the current period are classed as continuing and there is no other comprehensive income.

Consolidated Statement of Financial Position

Company registration number: 06395159

		30 June 2017	30 June 2016	31 December 2016
		Unaudited	Unaudited	Audited
Assets	Notes	£'000	£'000	£'000
Non-current assets				
Goodwill		14,029	14,029	14,029
Property, plant and equipment		298	376	360
Deferred tax assets		108	68	141
Total non-current assets		14,435	14,473	14,530
Current assets				
Inventories		633	618	680
Trade and other receivables		3,102	2,727	2,591
Cash and cash equivalents		4,775	4,598	6,249
Total current assets		8,510	7,943	9,520
Total assets		22,945	22,416	24,050
Current liabilities				
Trade and other payables		2,681	2,853	2,892
Borrowings		-	498	-
Deferred revenue		2,589	2,483	2,591
Current tax liabilities		422	535	238
		5,692	6,369	5,721
Total liabilities		5,692	6,369	5,721
Net assets		17,253	16,047	18,329
Equity				
Called up share capital	7	476	473	474
Share premium account	7	4,869	4,674	4,702
Equity reserve		295	175	281
Capital redemption reserve		4,663	4,663	4,663
Translation reserve		(194)	(174)	(304)
Retained earnings		7,144	6,236	8,513
Total equity attributable to equity shareholders of Quartix Holdings plc		17,253	16,047	18,329

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2015	472	4,631	4,663	177	(49)	5,303	15,197
Shares issued	1	43	-	-	-	-	44
Increase in equity reserve in relation to options issued	-	-	-	55	-	-	55
Adjustment for exercised options	-	-	-	(43)	-	43	-
Deferred tax on share options	-	-	-	(14)	-	-	(14)
Dividend paid	-	-	-	-	-	(1,892)	(1,892)
Transactions with owners	1	43	-	(2)	-	(1,849)	(1,807)
Foreign currency translation differences	-	-	-	-	(125)	-	(125)
Profit for the period	-	-	-	-	-	2,782	2,782
Total comprehensive income	-	-	-	-	(125)	2,782	2,657
Balance at 30 June 2016	473	4,674	4,663	175	(174)	6,236	16,047
Shares issued	1	28	-	-	-	-	29
Increase in equity reserve in relation to options issued	-	-	-	58	-	-	58
Adjustment for exercised options	-	-	-	(13)	-	13	-
Deferred tax on share options	-	-	-	61	-	-	61
Dividend paid	-	-	-	-	-	(1,041)	(1,041)
Transactions with owners	1	28	-	106	-	(1,028)	(893)
Foreign currency translation differences	-	-	-	-	(130)	-	(130)
Profit for the period	-	-	-	-	-	3,305	3,305
Total comprehensive income	-	-	-	-	(130)	3,305	3,175
Balance at 31 December 2016	474	4,702	4,663	281	(304)	8,513	18,329
Shares issued	2	167	-	-	-	-	169
Increase in equity reserve in relation to options issued	-	-	-	158	-	-	158
Adjustment for exercised options	-	-	-	(104)	-	104	-
Deferred tax on share options	-	-	-	(40)	-	-	(40)
Dividend paid	-	-	-	-	-	(4,279)	(4,279)
Transactions with owners	2	167	-	14	-	(4,175)	(3,992)
Foreign currency translation differences	-	-	-	-	110	-	110
Profit for the period	-	-	-	-	-	2,806	2,806
Total comprehensive income	-	-	-	-	110	2,806	2,916
Balance at 30 June 2017	476	4,869	4,663	295	(194)	7,144	17,253

Consolidated Statement of Cash Flows

		30 June 2017	30 June 2016	31 December 2016
	Notes	Unaudited £'000	Unaudited £'000	Audited £'000
Cash generated from operations	6	2,881	3,570	6,812
Taxes paid		(237)	(408)	(639)
Cash flow from operating activities		2,644	3,162	6,173
Investing activities				
Additions to property, plant and equipment		(33)	(120)	(189)
Interest received		9	8	21
Cash flow from investing activities		(24)	(112)	(168)
Cash flow from operating activities after investing activities (free cash flow)		2,620	3,050	6,005
Financing activities				
Repayment of long term borrowings		-	(500)	(1,000)
Interest paid		-	(20)	(29)
Proceeds from share issues	7	169	44	73
Dividend paid		(4,279)	(1,892)	(2,933)
Cash flow from financing activities		(4,110)	(2,368)	(3,889)
Net changes in cash and cash equivalents		(1,490)	682	2,116
Cash and cash equivalents, beginning of period		6,249	4,040	4,040
Exchange differences on cash & cash equivalents		16	(124)	93
Cash and cash equivalents, end of period		4,775	4,598	6,249

Notes to the Financial Statements (unaudited)

1 General information

Quartix Holdings plc (“the Company”) and its subsidiaries (“the Group”) specialises in the design, development and marketing of vehicle tracking devices and the provision of related data services.

The Company was re-registered as a public company on 31 July 2014 and is incorporated and domiciled in the UK.

2 Significant accounting policies

Basis of preparation

The financial information has been prepared in accordance with recognition and measurement principles of International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that had been published by 30 June 2017 as endorsed by the European Union (“EU”). The accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2016, as described in those financial statements. In preparing these interim financial statements, the Board has not sought to adopt IAS 34 “Interim financial reporting”.

The figures for the six month periods ended 30 June 2017 and 30 June 2016 have not been audited. The figures for the year ended 31 December 2016 have been extracted from, but do not constitute, the consolidated financial statements of Quartix Holdings plc for that year. Those financial statements have been delivered to the Registrar of Companies and included an Auditors’ Report, which was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

Going concern

The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non-cash item.

After assessing the forecasts and liquidity of the business to the end of the following calendar year and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the interim results.

3 Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8, being the design, development and marketing of vehicle tracking devices and the provision of related data services. The information used by the Group’s chief operating decision makers to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. All revenue, costs, assets and liabilities relate to the single activity; and accordingly no segmental analysis is presented.

An analysis of turnover by type of customer and geography is stated below:

	30 June 2017 Unaudited £’000	30 June 2016 Unaudited £’000	31 December 2016 Audited £’000
By customer base			
Fleet	8,291	7,196	14,909
Insurance	3,219	4,378	8,430
	11,510	11,574	23,339

3 Segmental analysis (continued)

	30 June 2017 Unaudited £'000	30 June 2016 Unaudited £'000	31 December 2016 Audited £'000
Geographical analysis by destination			
United Kingdom	10,068	10,678	21,249
France	895	619	1,408
Republic of Ireland	4	2	5
United States of America	543	275	677
	11,510	11,574	23,339

4 Adjusted earnings before interest, tax, depreciation and amortisation (EBIDTA)

	30 June 2017 Unaudited £'000	30 June 2016 Unaudited £'000	31 December 2016 Audited £'000
Operating profit	3,210	3,322	6,543
Depreciation	91	68	152
EBITDA	3,301	3,390	6,695
Share-based payment expense	158	55	113
Adjusted EBITDA	3,459	3,445	6,808

5 Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Quartix Holdings plc divided by the weighted average number of shares in issue during the period. The earnings per share calculation relates to continuing operations of the Group.

	Profits attributable to shareholders £'000	Weighted average number of shares	Basic profit per share amount in pence	Fully diluted weighted average number of shares	Fully diluted profit per share amount in pence
Earnings per ordinary share					
Period ended 30 June 2017	2,806	47,402,743	5.92	48,549,415	5.78
Period ended 30 June 2016	2,782	47,251,723	5.89	47,761,493	5.82
Year ended 31 December 2016	6,087	47,292,755	12.87	47,929,813	12.70

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume the conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are those share options where the exercise price is less than the average market price of the Company's ordinary shares during the period.

6 Notes to the cash flow statement
Cash flow adjustments and changes in working capital

	30 June 2017	30 June 2016	31 December 2016
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Profit before tax	3,219	3,313	6,540
Foreign exchange	97	-	(326)
Depreciation	91	68	152
Interest income	(9)	(8)	(21)
Interest expense	-	17	24
Share based payment expense	158	55	113
Operating cash flow before movement in working capital	3,556	3,445	6,482
(Increase)/decrease in trade and other receivables	(520)	(135)	5
Decrease/(increase) in inventories	45	21	(39)
(Decrease)/Increase in trade and other payables	(200)	239	364
Cash generated from operations	2,881	3,570	6,812

7 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2016	47,175,704	472	4,631
Shares issued	117,250	1	43
At 30 June 2016	47,292,954	473	4,674
Shares issued	53,000	1	28
At 31 December 2016	47,345,954	474	4,702
Shares issued	222,400	2	167
At 30 June 2017	47,568,354	476	4,869

All shares issued in the period to 30 June 2017 relate to the exercise of share options.

Company Information

Company registration number:	06395159
Registered office:	Wellington House East Road Cambridge Cambridgeshire CB1 1BH
Directors:	Paul Boughton Andrew Walters David Bridge Jim Warwick Ed Ralph Appointed 25 July 2017
Company secretary:	David Bridge
Bankers:	Barclays Bank PLC 28 Chesterton Road Cambridge CB4 3AZ
Solicitors:	Hewitsons LLP Shakespeare House 42 Newmarket Road Cambridge CB5 8EP
Auditors:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY
Nominated advisor and broker:	finnCap 60 New Broad Street London EC2M 1 JJ